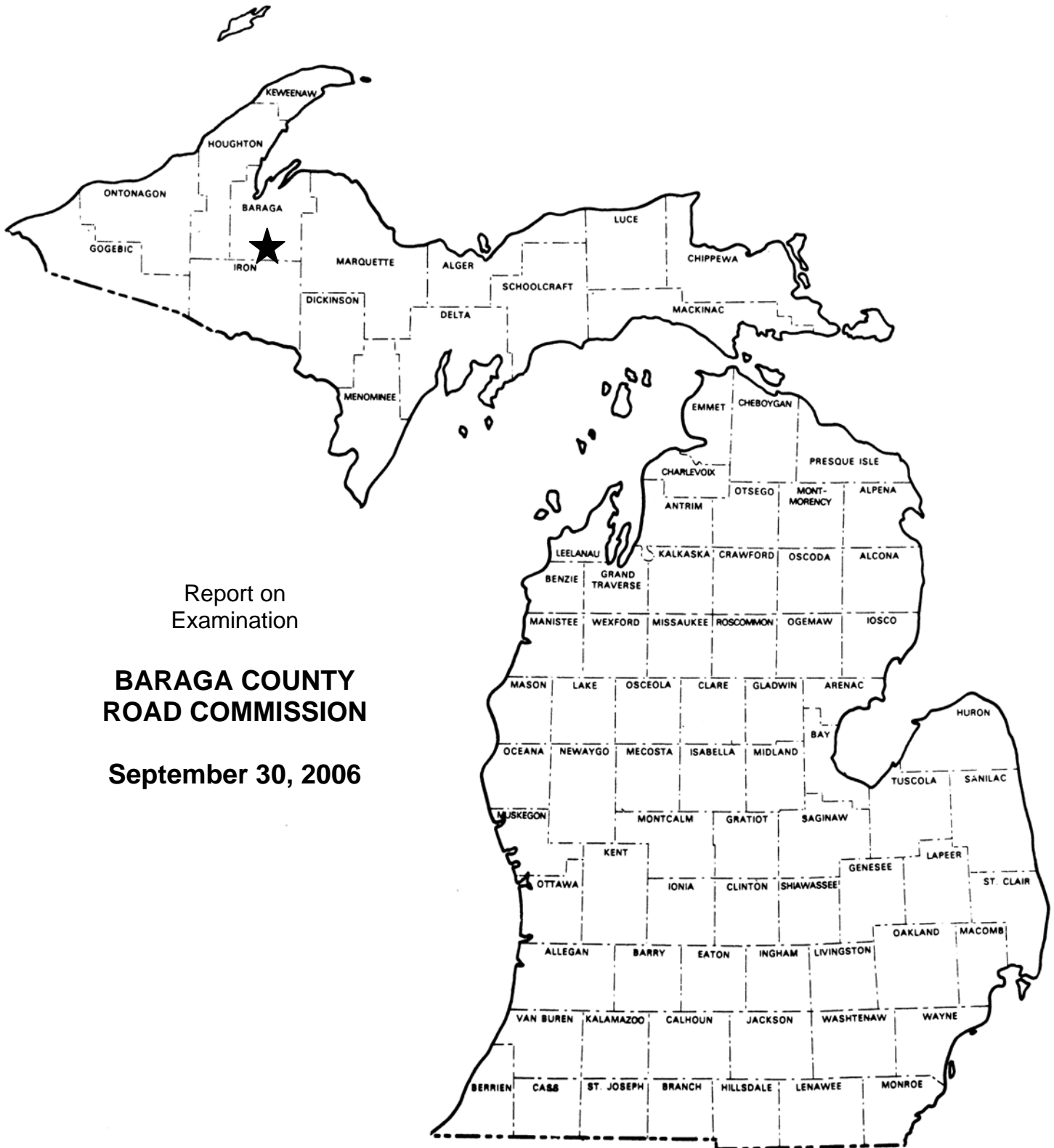


**STATE OF MICHIGAN**  
JENNIFER M. GRANHOLM, Governor  
**DEPARTMENT OF TREASURY**



Report on  
Examination

**BARAGA COUNTY  
ROAD COMMISSION**

**September 30, 2006**

BARAGA COUNTY ROAD COMMISSION  
BOARD OF COUNTY ROAD COMMISSIONERS

Anthony R. Selkey  
Chairperson

Harold Miron  
Vice Chairperson

Roy Koski  
Member

Douglas J. Mills, P.E.  
Engineer/Manager

Mary R. Bedner  
Clerk/Office Manager

COUNTY POPULATION--2000  
8,746

STATE EQUALIZED VALUATION--2006  
\$283,602,138



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

ROBERT J. KLEINE  
STATE TREASURER

February 15, 2007

Baraga County Road Commission  
Board of County Road Commissioners  
US 41 South  
P.O. Box 217  
L'Anse, Michigan 49946

Independent Auditor's Report

Dear Commissioners:

We have audited the accompanying basic financial statements of the Baraga County Road Commission, a component unit of Baraga County, Michigan, as of and for the year ended September 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Baraga County Road Commission as of September 30, 2006 and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated February 15, 2007 on our consideration of the Baraga County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial

reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 1 through 11 and the budget comparison information in Exhibits G and H are not part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken, as a whole.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Baraga County Road Commission's basic financial statements. The accompanying supplementary and related information in Exhibits I through K is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements, taken as a whole.



Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division

# BARAGA COUNTY ROAD COMMISSION

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# BARAGA COUNTY ROAD COMMISSION

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# **BARAGA COUNTY ROAD COMMISSION**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Our discussion and analysis of Baraga County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the fiscal year ended September 30, 2006. This discussion and analysis is designed to: a) assist the reader in focusing on significant financial issues; b) provide an overview of the Road Commission's financial activity; c) identify changes in the Road Commission's financial position (its ability to address the next and subsequent year challenges); d) identify any material deviations from the approved budget; and e) identify any issues or concerns.

### ***Overview of the Financial Statements***

This annual report consists of four parts: management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Road Commission.

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a longer-term view of the Road Commission's finances. The two government-wide statements report the Road Commission's net assets and how they have changed.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending.

### **Reporting the Road Commission as a Whole**

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

**BARAGA COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The two statements mentioned above report the Road Commission's net assets and changes in them. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases and decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating.

***Report on the Road Commission's Major Fund***

The fund financial statements begin with Exhibit A and provide detailed information about the major fund. The Road Commission currently has only one fund, the General Operations Fund, in which all of the Road Commission's activities are accounted. The General Operations Fund is a governmental type fund.

- Governmental Fund--The governmental fund focuses on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

***The Road Commission as a Whole***

The Road Commission's net assets increased approximately 22.4% or \$2,171,422 from \$9,696,003 to \$11,867,425 for the year ended September 30, 2006. The net assets and change in net assets are summarized below.

Restricted net assets, those restricted mainly for Act 51 purposes, were \$1,254,106 during 2006, a decrease of \$280,540 from the prior year. The change was primarily the result of a reduction in Michigan Transportation Fund (MTF) funding and maintenance activity expenditures as compared to 2006.

Restricted net assets are those net assets that have constraints placed on them by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specified purpose stipulated in the legislation. As such all assets (except for assets invested in capital assets-net or related debt) are considered restricted. The depreciation for the current year's infrastructure assets will be depreciated in the subsequent year.



**BARAGA COUNTY ROAD COMMISSION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The investment in capital assets for 2006, net of related debt, was \$10,613,319, an increase of \$2,451,962 from the prior year. The increase was primarily the result of reporting infrastructure in the amount of \$2,403,594 for the year 2006.

Net assets as of the year ended September 30, 2006 are as follows:

|                            | Governmental<br>Activities<br>09/30/05 | Governmental<br>Activities<br>09/30/06 | Variance           | Percentage     |
|----------------------------|--|--|--------------------|----------------|
| Current and Other Assets   | \$ 2,818,471                           | \$ 2,166,411                           | \$ (652,060)       | -23.14%        |
| Net Capital Assets         | <u>8,830,329</u>                       | <u>11,077,649</u>                      | <u>2,247,320</u>   | <u>25.45%</u>  |
| Total Assets               | <u>11,648,800</u>                      | <u>13,244,060</u>                      | <u>1,595,260</u>   | <u>13.69%</u>  |
| Current Liabilities        | 934,834                                | 593,770                                | 341,064            | 57.44%         |
| Noncurrent Liabilities     | <u>1,017,963</u>                       | <u>782,865</u>                         | <u>235,098</u>     | <u>30.03%</u>  |
| Total Liabilities          | <u>1,952,797</u>                       | <u>1,376,635</u>                       | <u>(576,162)</u>   | <u>-29.50%</u> |
| Net Assets                 |  |  |                    |                |
| Invested in Capital Assets |  |  |                    |                |
| Net of Related Debt        | 8,161,357                              | 10,613,319                             | 2,451,962          | 30.04%         |
| Restricted                 | <u>1,534,646</u>                       | <u>1,254,106</u>                       | <u>(280,540)</u>   | <u>-18.28%</u> |
| Total Net Assets           | <u>\$ 9,696,003</u>                    | <u>\$11,867,425</u>                    | <u>\$2,171,422</u> | <u>22.40%</u>  |

**BARAGA COUNTY ROAD COMMISSION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

A summary of changes in net assets for the year ended September 30, 2006 follows:

|                                     | <u>2005</u>        | <u>2006</u>         | <u>Difference</u>   | <u>Percent</u> |
|-------------------------------------|--------------------|---------------------|---------------------|----------------|
| Program Revenue                     |                    |                     |                     |                |
| Federal Grants                      | \$4,038,602        | \$ 1,581,597        | \$(2,457,005)       | -155.35%       |
| State Grants                        | 2,740,355          | 2,529,753           | (210,602)           | -8.33%         |
| Contributions From Local Units      | 99,042             | 152,360             | 53,318              | 34.99%         |
| Charges for Services                | 5,375              | 99,708              | 94,333              | 94.61%         |
| Investment Earnings                 | 14,140             | 22,414              | 8,274               | 36.91%         |
| Reimbursements                      | 80                 | 48                  | (32)                | -66.67%        |
| General Revenue                     |                    |                     |                     |                |
| Property Taxes                      | 296,092            | 283,806             | (12,286)            | -4.33%         |
| Gain on Equipment Disposal          | (741)              | 10,138              | 10,879              | 107.31%        |
| Total Revenue                       | <u>7,192,945</u>   | <u>4,679,824</u>    | <u>(2,513,121)</u>  | <u>-53.70%</u> |
| Expenses                            |                    |                     |                     |                |
| Primary Road Maintenance            | 627,138            | 627,379             | (241)               | -0.04%         |
| Local Road Maintenance              | 1,500,679          | 1,384,111           | 116,568             | 7.77%          |
| Net Equipment Expense               | (228,367)          | (54,712)            | 173,655             | 76.04%         |
| Net Administrative Expense          | 327,195            | 373,057             | (45,862)            | -14.02%        |
| Infrastructure Depreciation Expense | 34,569             | 134,602             | (100,033)           | -289.37%       |
| Compensated Absences                | 29,932             | (30,456)            | 60,388              | 201.75%        |
| Non-Road Project                    |                    | 62,056              | (62,056)            | 100.00%        |
| Interest Expense                    | 18,134             | 12,365              | 5,769               | 31.81%         |
| Total Expenses                      | <u>2,309,280</u>   | <u>2,508,402</u>    | <u>(199,122)</u>    | <u>-8.62%</u>  |
| Increase in Net Assets              | <u>4,883,665</u>   | <u>2,171,422</u>    | <u>(2,712,243)</u>  | <u>-55.54%</u> |
| Ending Net Assets                   | <u>\$9,696,003</u> | <u>\$11,867,425</u> | <u>\$ 2,171,422</u> | <u>22.40%</u>  |

**The Road Commission's Fund**

The Road Commission's General Operations Fund is used to control the expenditures of Michigan Transportation Fund monies, distributed to the county, which are earmarked by law for road and highway purposes.

**BARAGA COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

|  | <u>2005</u>         | <u>2006</u>         | <u>Variance</u>    | <u>%</u>        |
|--|---------------------|---------------------|--------------------|-----------------|
| Revenues   |                     |                     |                    |                 |
| Taxes  | \$ 296,092          | \$ 283,806          | \$ (12,286)        | -4.15%          |
| Federal Aid  | 4,215,192           | 1,775,374           | (2,439,818)        | -57.88%         |
| State Aid  | 2,768,926           | 2,561,298           | (207,628)          | -7.50%          |
| Contributions From Local Units                                   | 99,042              | 152,360             | 53,318             | 53.83%          |
| Charges for Services   | 670                 | 34,277              | 33,607             | 5015.97%        |
| Interest and Rents   | 14,141              | 22,414              | 8,273              | 58.50%          |
| Other Revenue  | 4,044               | 75,617              | 71,573             | 1769.86%        |
| Total Revenues   | <u>7,398,107</u>    | <u>4,905,146</u>    | <u>(2,492,961)</u> | <u>-33.70%</u>  |
| Expenditures   |                     |                     |                    |                 |
| Public Works   | 7,093,315           | 4,438,140           | 2,655,175          | 37.43%          |
| Capital Outlay   | 237,131             | 335,673             | (98,542)           | -41.56%         |
| Debt Service   | 246,825             | 217,007             | 29,818             | 12.08%          |
| Total Expenditures   | <u>7,577,271</u>    | <u>4,990,820</u>    | <u>2,586,451</u>   | <u>34.13%</u>   |
| Excess of Expenditures Over Revenues                             | <u>(179,164)</u>    | <u>(85,674)</u>     | <u>93,490</u>      | <u>52.18%</u>   |
| Other Financing Sources  |                     |                     |                    |                 |
| Installment Purchase Proceeds                                    | 75,642              |                     | (75,642)           | -100.00%        |
| Total Other Financing Sources                                    | <u>75,642</u>       | <u>-</u>            | <u>(75,642)</u>    | <u>-100.00%</u> |
| Excess of Revenues and Other Financing Sources Over Expenditures | <u>(103,522)</u>    | <u>(85,674)</u>     | <u>17,848</u>      | <u>17.24%</u>   |
| Fund Balance--Beginning  | <u>1,761,837</u>    | <u>1,658,315</u>    | <u>(103,522)</u>   | <u>-5.88%</u>   |
| Fund Balance--Ending   | <u>\$ 1,658,315</u> | <u>\$ 1,572,641</u> | <u>\$ (85,674)</u> | <u>-5.17%</u>   |

For the year ended September 30, 2006, the fund balance of the General Operations Fund decreased \$85,674 as compared to a decrease of \$103,522 in the fund balance for the fiscal year ended September 30, 2005. Total operating revenues were \$4,905,146, a decrease of \$2,492,961 as compared to last year. This change in revenues resulted from, comparing the two periods, a substantial decrease in Federal Aid. The difference in Federal aid from 2005 to 2006 was primarily due the major work in 2005 on large bridge projects and work on projects approved for flood recovery from the 2002 and 2003 flood events. The Bureau of Indian Affairs, U.S. Army Corps of Engineers, Federal Highway Administration (FHWA) Emergency Relief Program, and Federal Emergency Management Agency (FEMA) all provided additional funding for specific projects in the 2005 fiscal year.

Total expenditures were \$4,990,820, a decrease of \$2,586,451 in comparison to last year. This change in expenditures is primarily the result of the reconstruction of one bridge and the construction of two new bridges during 2005.

**BARAGA COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

*Budgetary Highlights for 2006*

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission's Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorized large expenditures when requested throughout the year.

The original revenue budget for 2006 was \$7,220,000, which was \$2,316,000 more than the final amended budget. This reduction in revenue was due, in large part, to the Road Commission receiving less certain Federal and State aid project funding during the year than was originally planned. Several US Army Corps of Engineer projects that were anticipated in the original budget were not funded in 2006. Much of the US Army Corps of Engineers funding was earmarked by Congress for hurricane relief in the Southern states due to the devastating hurricane damage the prior season. The final amended budget was \$1,146 less than the actual revenue received for the year.

The Road Commission's original expenditures were projected at \$6,945,000, while the final amended budget was \$5,450,000. The actual expenditures were \$4,990,820 resulting in actual expenditures being less than the budget by \$459,180. This was primarily due to some of the major road construction projects completed after October 1st (FY2007) and others that were rescheduled for the 2007 and 2008 construction seasons. Several projects previously identified for funding by the US Army Corps of Engineers remained unfunded and were not constructed in 2006.

**BARAGA COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

*Capital Assets and Debt Administration*

Capital Assets

As of September 30, 2006, the Road Commission had \$11,077,649 invested in capital assets as follows:

|                                       | <u>09/30/05</u>            | <u>09/30/06</u>             | <u>Percentage<br/>Change</u> |
|---------------------------------------|----------------------------|-----------------------------|------------------------------|
| Capital Assets Not Being Depreciated  |                            |                             |                              |
| Land and Improvements                 | \$ 106,277                 | \$ 106,277                  | 0.00%                        |
| Infrastructure--Land and Improvements | <u>3,666,277</u>           | <u>5,052,719</u>            | <u>27.44%</u>                |
| Capital Assets Being Depreciated      |                            |                             |                              |
| Buildings                             | 495,326                    | 495,326                     | 0.00%                        |
| Road Equipment                        | 5,382,778                  | 5,252,747                   | -2.48%                       |
| Shop Equipment                        | 100,926                    | 104,461                     | 3.38%                        |
| Office Equipment                      | 130,885                    | 131,221                     | 0.26%                        |
| Engineer's Equipment                  | 103,559                    | 103,559                     | 0.00%                        |
| Stockroom Equipment                   | 42,653                     | 42,185                      | -1.11%                       |
| Depletable Assets                     | 53,083                     | 53,083                      | 0.00%                        |
| Infrastructure--Bridges               | 2,807,429                  | 3,579,104                   | 21.56%                       |
| Infrastructure--Roads                 | <u>1,184,878</u>           | <u>1,430,375</u>            | <u>17.16%</u>                |
| Total Capital Assets                  | 14,074,071                 | 16,351,057                  | 13.93%                       |
| Total Accumulated Depreciation        | <u>(5,243,742)</u>         | <u>(5,273,408)</u>          | <u>0.56%</u>                 |
| Total Net Capital Assets              | <u><u>\$ 8,830,329</u></u> | <u><u>\$ 11,077,649</u></u> | <u><u>20.29%</u></u>         |

The Road Commission reported the infrastructure and related assets during the current year in the amount of \$2,739,286. The infrastructure is financed through Federal, State and local contributions. The Road Commission will retroactively report infrastructure assets (assets acquired after 1980) in a subsequent year as permitted by GASB Statement No. 34.

This year's major capital asset additions included the following:

|  |                           |
|--|---------------------------|
| Construction and Reconstruction of Bridges                 | \$ 771,675                |
| Various Resurfacing Projects and Related Land/Right-of-Way | 1,631,939                 |
| Road Equipment   | 329,248                   |
| Other Various Equipment                                    | <u>6,424</u>              |
| Total Additions  | <u><u>\$2,739,286</u></u> |

There were no new installment purchase agreements entered into during 2006, all equipment was acquired with Road Commission funds.

**BARAGA COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Debt

At the year end, the Road Commission had \$189,330 in installment purchase agreements versus \$393,971 last year, a decrease of \$204,641 or 52% as shown below:

|                                 | <u>2005</u>             | <u>2006</u>             | <u>Variance</u>         | <u>% of<br/>Variance</u> |
|---------------------------------|-------------------------|-------------------------|-------------------------|--------------------------|
| Installment Purchase Agreements | <u>\$393,971</u>        | <u>\$189,330</u>        | <u>\$204,641</u>        | <u>51.94%</u>            |
| Total                           | <u><u>\$393,971</u></u> | <u><u>\$189,330</u></u> | <u><u>\$204,641</u></u> | <u><u>51.94%</u></u>     |

One installment purchase agreement was paid off during the year and another will be paid off during 2007. For detailed information about the Road Commission's long-term liabilities, see Note G to the financial statements.

During 2004, the Road Commission entered into a three year agreement with the State Infrastructure Bank for a three year \$275,000, 0% loan to be paid in full at the end of the third year (2007).

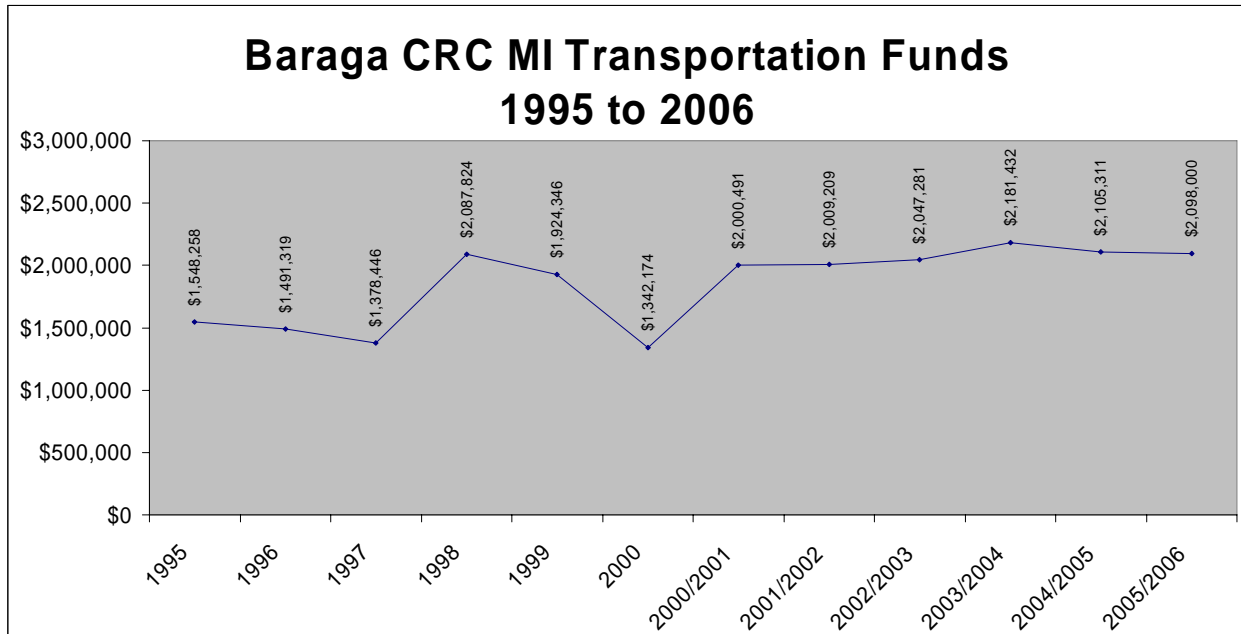
***Economic Factors and Next Year's Budget***

The needs and demands placed on agencies responsible for maintaining the the Michigan Transportation System continue to grow. The cost of equipment, material and personnel continue to increase since the gas tax was last increased in 1997. Throughout the state, road commissions have struggled with budget issues during the past year. Road Commissions have reported to the County Road Association of Michigan (CRAM) that they are unable to purchase needed equipment, maintain adequate staffing levels and provide matching funds for projects. The lack of needed funding results in deferred maintenance and capital improvements on the roads, bridges and culverts.

## BARAGA COUNTY ROAD COMMISSION

### MANAGEMENT'S DISCUSSION AND ANALYSIS

The annual growth of the Michigan Transportation Fund (MTF) revenue has not kept pace with the cost increases for construction and maintenance. The erosion of the basic allocated funding source also limits the ability to undertake proper long-range planning and manage the public assets. Local road agencies, including Baraga County, are not able to keep pace with necessary transportation needs. Below is a summary of the trends in the MTF revenue allocations during recent years.



Source: Act 51 Annual Reports

The board of county road commissioners considered many factors when setting the fiscal year 2007 budget. One of the major factors is the Michigan Transportation Fund (MTF). The MTF provides the primary operating revenue for the Road Commission. The MTF, Act 51 of 1951 provides for the distribution of over \$2.0 billion of fuel taxes and vehicle registration fees collected in Michigan. After deductions of 1 cent of the 1997 gas tax increase for bridges, \$43 million for state debt service and deductions for other state agencies, public transit, economic development and local bridge programs, the balance is distributed by formula; state-39.1%, counties-39.1%, and cities and villages-21.8%.

Changes by the State of Michigan in trailer plate fee collections resulted in a one year spike in the MTF in 2004. Because the trailer plates are now purchased one time instead of annually, revenues from the collections increased the MTF funding for 2004, with a substantial decrease in 2005 and 2006. The trailer plate collections in 2007 are expected to remain at 2006 levels, significantly down from 2004 levels.

**BARAGA COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The State of Michigan also continues to allow MTF funds to be utilized by, and provide funding for, other State departments. This money comes off the top of the MTF and results in less dollars available to the Michigan Department of Transportation, County Road Commissions and City & Village street departments.

Fuel tax collections are also expected to continue in a downward trend 2007 due to less consumption. The less consumption results from higher fuel prices, the economic conditions throughout the state, more fuel efficient vehicles, and increased use of hybrid vehicles and alternative fuels. If there is less consumption there will be less Michigan Transportation Fund tax collections and less dollars distributed to road agencies.

Because of the above stated reasons, the total anticipated MTF funding for Baraga County was estimated to remain flat for the 2007 fiscal year as compared to 2006.

Another factor considered when preparing the fiscal year 2007 budget was the availability of funding sources other than the MTF. In Baraga County, the Road Commission anticipates several road projects and one bridge replacement project to be partially funded by various State and Federal agencies, including the Bureau of Indian Affairs. In addition, the Local Jobs Today (LJT) Program will provide additional matching funds to accelerate several projects on the Federal Aid System. The LJT program will provide matching funds for certain qualifying projects that are let to contract by September 30, 2007.

While a substantial portion of Road Commission revenue comes from State and Federal sources to partially fund improvement projects, local funding is also needed to provide matching dollars. Countywide road millage, township millages, township contributions and tribal contributions are also anticipated to provide revenue toward many projects and maintenance activities in the 2007 fiscal year.

In summary, key revenue factors and expenditure concerns were analyzed during the preparation of the 2007 fiscal year budget. Revenue factors included: flat or declining allocated funding from the MTF; limited local funding resources and limited availability of other competitive state and Federal program funds. Expenditure concerns included: a \$275,000 flood relief loan to be paid off in FY2007; major increases in materials such as fuel, asphalt, aggregate and steel; continued employee health insurance cost increases; and unfunded employee retirement liability. All of these concerns, in addition to the general items previously discussed, were considered when adopting the budget for 2007. Amounts expected to be available for appropriation in the FY2007 budget are \$6,565.000.



**BARAGA COUNTY ROAD COMMISSION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The board realizes, and the reader should understand, that there are not sufficient funds available to adequately address the needs of the county road system, as a whole. Additional drainage improvements, preventative maintenance, reconstruction, bituminous resurfacing and surfacing gravel roads throughout the county is needed. Many needed projects and activities remain unfunded and priorities must be established for the entire system. The preparation of the budget is challenging, however, the board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of Baraga County.

***Contacting the Road Commission's Financial Management***

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Road Commission for Baraga County administrative offices at: 18339 US 41, L'Anse, Michigan, 49946.

**BARAGA COUNTY ROAD COMMISSION**  
**STATEMENT OF NET ASSETS**  
**September 30, 2006**

**EXHIBIT A**

**ASSETS**

|  |                   |
|--|-------------------|
| Cash   | \$ 1,271,155      |
| Accounts Receivable                              |                   |
| Sundry Accounts                                  | 17,693            |
| Michigan Transportation Fund                     | 301,143           |
| State--Other                                     | 7,064             |
| Due From Federal                                 | 102,513           |
| Inventories                                      |                   |
| Road Materials                                   | 288,471           |
| Equipment Parts and Materials                    | 125,966           |
| Prepaid Expenses                                 | 52,406            |
| Capital Assets (Net of Accumulated Depreciation) | <u>11,077,649</u> |
| Total Assets                                     | <u>13,244,060</u> |

**LIABILITIES**

|  |                  |
|--|------------------|
| Current Liabilities  |                  |
| Accounts Payable   | 506,671          |
| Retainage Payable  | 10,769           |
| Due to State of Michigan   | 15,656           |
| Accrued Liabilities  | 39,174           |
| Driveway Snow Plowing Deposits                                     | 17,712           |
| Due Other Units of Government                                      | (309)            |
| Other Accrued Liabilities  | 4,097            |
| Noncurrent Liabilities   |                  |
| Installment Purchase Agreements Payable--Due in One Year           | 167,015          |
| Installment Purchase Agreements Payable--Due in More Than One Year | 22,315           |
| State Infrastructure Bank Payable--Due in More Than One Year       | 275,000          |
| Vested Employee Benefits Payable                                   | <u>318,535</u>   |
| Total Liabilities  | <u>1,376,635</u> |

**NET ASSETS**

|                              |                      |
|------------------------------|----------------------|
| Investment in Capital Assets |                      |
| Net of Related Debt          | 10,613,319           |
| Restricted for County Roads  | <u>1,254,106</u>     |
| Total Net Assets             | <u>\$ 11,867,425</u> |

**The Notes to Financial Statements are an integral part of this statement.**

**BARAGA COUNTY ROAD COMMISSION**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended September 30, 2006**

**EXHIBIT B**

|                                    |               |
|------------------------------------|---------------|
| Program Expenses                   |               |
| Primary Road Maintenance           | \$ 627,379    |
| Local Road Maintenance             | 1,384,111     |
| Net Equipment Expense              | (54,712)      |
| Net Administrative Expense         | 373,057       |
| Infrastructure Depreciation        | 134,602       |
| Compensated Absences               | (30,456)      |
| Non Road Project                   | 62,056        |
| Interest Expense                   | 12,365        |
|                                    | <hr/>         |
| Total Program Expenses             | 2,508,402     |
|                                    | <hr/>         |
| Program Revenue                    |               |
| Charges for Services               |               |
| Charges for Services               | 99,708        |
| Reimbursements                     | 48            |
| Operating Grants and Contributions |               |
| Michigan Transportation Funds      | 2,094,509     |
| Investment Earnings                | 22,414        |
| Capital Grants and Contributions   |               |
| Federal Grants                     | 1,581,597     |
| State Grants                       | 435,244       |
| Contributions From Local Units     | 152,360       |
|                                    | <hr/>         |
| Total Program Revenue              | 4,385,880     |
|                                    | <hr/>         |
| Net Program Revenue                | 1,877,478     |
|                                    | <hr/>         |
| General Revenue                    |               |
| Taxes                              | 283,806       |
| Gain on Equipment Disposal         | 10,138        |
|                                    | <hr/>         |
| Total General Revenues             | 293,944       |
|                                    | <hr/>         |
| Change in Net Assets               | 2,171,422     |
|                                    | <hr/>         |
| Net Assets                         |               |
| Beginning of Year                  | 9,696,003     |
|                                    | <hr/>         |
| End of Year                        | \$ 11,867,425 |
|                                    | <hr/>         |

**The Notes to Financial Statements are an integral part of this statement.**

**BARAGA COUNTY ROAD COMMISSION**  
**BALANCE SHEET**  
**September 30, 2006**

**EXHIBIT C**

**GOVERNMENTAL**  
**FUND TYPE**

General  
Operating  
Fund

**ASSETS**

|                               |                     |
|-------------------------------|---------------------|
| Bank Deposits                 | \$ 1,271,155        |
| Accounts Receivable           |                     |
| Michigan Transportation Funds | 301,143             |
| State Highway--Other          | 7,064               |
| Sundry Accounts               | 17,693              |
| Due From Federal Government   | 102,513             |
| Inventories                   |                     |
| Road Materials                | 288,471             |
| Equipment Parts and Materials | 125,966             |
| Prepaid Expense               | 52,406              |
|                               | <hr/>               |
| Total Assets                  | <u>\$ 2,166,411</u> |

**LIABILITIES AND FUND EQUITY**

|                                     |                     |
|-------------------------------------|---------------------|
| Liabilities                         |                     |
| Accounts Payable                    | \$ 506,671          |
| Retainage Payable                   | 10,769              |
| Accrued Liabilities                 | 39,174              |
| Due to State                        | 15,656              |
| Due to Other Units of Government    | (309)               |
| Other Accrued Liabilities           | 4,097               |
| Advances                            |                     |
| Driveway Plowing                    | 17,712              |
|                                     | <hr/>               |
| Total Liabilities                   | <u>593,770</u>      |
| Fund Equities                       |                     |
| Fund Balance                        |                     |
| Reserved for Inventory              | 414,437             |
| Reserved for Self-Insurance         | 229,167             |
| Unreserved and Undesignated         | 929,037             |
|                                     | <hr/>               |
| Total Fund Equities                 | <u>1,572,641</u>    |
|                                     | <hr/>               |
| Total Liabilities and Fund Equities | <u>\$ 2,166,411</u> |

**The Notes to Financial Statements are an integral part of this statement.**

**BARAGA COUNTY ROAD COMMISSION  
RECONCILIATION OF THE BALANCE SHEET FUND  
BALANCE TO THE STATEMENT OF NET ASSETS  
For the Year Ended September 30, 2006**

**EXHIBIT D**

|                                 |              |
|---------------------------------|--------------|
| Total Governmental Fund Balance | \$ 1,572,641 |
|---------------------------------|--------------|

Amounts reported for governmental activities in the Statement of Net Assets are  
are different because:

|  |            |
|--|------------|
| Capital assets used in governmental activities are not financial resources and,<br>therefore, are not reported in the funds. | 11,077,649 |
|--|------------|

|   |                  |
|---|------------------|
| Other long-term assets are not available to pay for current period expenditures<br>and, therefore, are not reported in the funds. | <u>(782,865)</u> |
|---|------------------|

|                                       |                             |
|---------------------------------------|-----------------------------|
| Net Assets of Governmental Activities | <u><u>\$ 11,867,425</u></u> |
|---------------------------------------|-----------------------------|

**The Notes to Financial Statements are an integral part of this statement.**

**BARAGA COUNTY ROAD COMMISSION**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCE**  
**For the Year Ended September 30, 2006**

**EXHIBIT E**

|   | <u>Operating<br/>Fund</u>  |
|---|----------------------------|
| Revenues  |                            |
| Taxes   | \$ 283,806                 |
| Federal Aid                                     | 1,775,374                  |
| State Aid                                       | 2,561,298                  |
| Contributions From Local Units                  | 152,360                    |
| Charges for Services                            | 34,277                     |
| Interest and Rents                              | 22,414                     |
| Other Revenue                                   | <u>75,617</u>              |
| Total Revenues                                  | <u>4,905,146</u>           |
| Expenditures                                    |                            |
| Public Works                                    | 4,438,140                  |
| Capital Outlay                                  | 335,673                    |
| Debt Service                                    | <u>217,007</u>             |
| Total Expenditures                              | <u>4,990,820</u>           |
| Excess of Revenues Over<br>(Under) Expenditures | <u>(85,674)</u>            |
| Fund Balance--October 1, 2005                   | <u>1,658,315</u>           |
| Fund Balance--September 30, 2006                | <u><u>\$ 1,572,641</u></u> |

**The Notes to Financial Statements are an integral part of this statement.**

**BARAGA COUNTY ROAD COMMISSION**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCE OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**For the Year Ended September 30, 2006**

**EXHIBIT F**

|  |             |
|--|-------------|
| Net Change in Fund Balance--Total Governmental Funds | \$ (85,674) |
|--|-------------|

Amounts reported for governmental activities in the statement are different because:

Governmental funds report capital outlays as expenditures.

However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

2,247,320

Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the Statement of Activities.

Lease proceeds provide current financial resources to governmental funds, but entering into lease agreements increases long-term liabilities in the

204,642

Statement of Net Assets. Repayment of notes/leases payable is an expenditure in governmental funds, but reduces the long-term liabilities in the Statement of Net Assets.

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (Increase in compensated absences and decrease in Interest expense.)

30,456

Change in Net Assets of Governmental Activities

\$2,171,422

**The Notes to Financial Statements are an integral part of this statement.**

## BARAGA COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

The accounting policies of the Baraga County Road Commission conform to generally accepted accounting principles (GAAP) in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies used by Baraga County Road Commission.

#### NOTE A--REPORTING ENTITY

The Baraga County Road Commission, which is established pursuant to the County Road Law Michigan Compiled Law (MCL) 224.1, is governed by an elected 3-member board of county road commissioners. The Road Commission may not issue debt without the county's approval and the property tax levy for road purposes is subject to county board of commissioners' approval. If approval is granted, Road Commission taxes are levied under the taxing authority of the county, as approved by the county electors, and would be included as part of the county's total tax levy as well as reported in the County Road Fund.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Baraga County Road Commission, a discretely presented component unit of Baraga County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for street and highway purposes. The board of county road commissioners is responsible for the administration of the Road Commission Operating Fund.

#### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Basis of Presentation--Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the Baraga County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets-net of related debt or restricted net assets. All of the net assets that are not related to capital assets are classified as restricted due to legal constraints.



## BARAGA COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

#### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

#### Basis of Presentation--Fund Financial Statements

Separate financial statements are provided for the Operating Fund (governmental fund). The Operating Fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

#### Measurement Focus/Basis of Accounting--Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: (1) charges to customer or applicants for goods or services or privileges provided; (2) Michigan transportation funds, State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

When both restricted and unrestricted resources are available for use, it is the Road Commission's policy to use restricted resources first, then unrestricted resources as they are needed.

#### Measurement Focus/Basis of Accounting--Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

## BARAGA COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

#### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

#### Bank Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Investments are recorded at cost.

#### Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs, and operations as used.

#### Property Taxes

The 2005 taxable valuation was \$179,369,265 on which ad valorem taxes of 1.9438 mills were levied for the Road Commission and the Villages of L'Anse and Baraga's snow removal and road construction purposes. In addition, specific taxes are levied under the Industrial Facilities Tax Act and Commercial Forest Reserve Act.

The county's 2005 ad valorem tax was levied and collectible on December 1, 2005. It is the county's policy to recognize revenues from the current tax levy in the subsequent year when the proceeds of the levy are budgeted and made available for financing operations. The 2005 tax levy for Road Commission operations were recorded as revenue during the year ended September 30, 2006 totaling \$283,806 for all taxes received.

#### Capital Assets and Depreciation

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges and similar items) are reported in the Operating Fund in the government-wide financial statements. Capital assets are defined by Baraga County Road Commission as assets with an initial individual cost of more than \$200 and an estimated useful life in excess of two years. Such assets are recorded at historical costs or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB Statement No. 34 makes it optional for phase III governments (Baraga County) to record major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated, for fiscal years ending after June 30, 1980, and that they be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. The Baraga County Road Commission has capitalized the current year's infrastructure since 2004, as required by GASB Statement No. 34, and has reported the infrastructure in the Statement of Net Assets.

## BARAGA COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

#### NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation on Road Commission capital assets is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to a depreciation credit account for non-infrastructure related assets. Accordingly, the annual depreciation expense does not affect the available operating equities of the General Operating Fund for the non-infrastructure related assets; the infrastructure asset depreciation is reported as a separate line item in the statement of activities. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

|                         |                |
|-------------------------|----------------|
| Buildings               | 30 to 50 years |
| Road Equipment          | 5 to 8 years   |
| Shop Equipment          | 10 years       |
| Engineering Equipment   | 4 to 10 years  |
| Office Equipment        | 4 to 10 years  |
| Infrastructure--Roads   | 8 to 30 years  |
| Infrastructure--Bridges | 12 to 50 years |

#### Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Operating Fund Statement of Net Assets.

#### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

#### NOTE C--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

##### Budgetary Procedures

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended, (MCL 141.421) which requires the county board of road commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief administrative officer prepares and submits a proposed operating budget to the board of road commissioners for its review and consideration. The board conducts a public budget hearing and subsequently adopts an operating budget. The budget is amended as necessary during the year and is approved by the board.

# BARAGA COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE C--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

Also, the board has authorized the chief administrative officer and fiscal officer to amend the Road Commission's budget when necessary, without increasing the overall budget, by transferring up to 20% from one line-item to another.

The budget is prepared on the modified accrual basis of accounting, which is the same basis as the fund financial statements.

### NOTE D--DEPOSITS AND INVESTMENTS

Michigan Compiled Laws 129.91, authorizes the county to deposit and invest in the accounts of Federally insured banks, credit unions, savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements, bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase, obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Road Commission has designated four financial institutions for the deposit of Road Commission funds. The investment policy adopted by the board in accordance with Public Act 20 of 1943, as amended, has authorized investment in the instruments described in the preceding paragraph. The Road Commission's deposits and investment policy are in accordance with statutory authority.

At year end, the Road Commission's deposits (there were no investments) were reported in the basic financial statements in the following categories:

|   |                           |
|---|---------------------------|
| Bank Deposits (Checking and Savings<br>Accounts, Certificates of Deposit) | \$1,271,055               |
| Petty Cash and Cash on Hand   | <u>100</u>                |
| Total   | <u><u>\$1,271,155</u></u> |

The bank balance of the primary government's deposits is \$1,323,789, of which \$341,166 is covered by Federal depository insurance.

## BARAGA COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

#### NOTE D--DEPOSITS AND INVESTMENTS (Continued)

##### Investments Authorized by the Road Commission's Investment Policy

The Road Commission's investment policy only authorizes investment in all those that are authorized by law. The Road Commission did not have any investments during 2006.

##### Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The investment policy did not address interest rate risk.

##### Concentration of Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The mutual funds and pension trust funds do not have a rating provided by a nationally recognized statistical rating organization.

The investment policy of the Road Commission contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by Michigan law.

##### Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the Road Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the Road Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

# BARAGA COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE E--DEFERRED COMPENSATION PLAN

The Baraga County Road Commission offers all Road Commission employees a choice of three deferred compensation plans created in accordance with the Internal Revenue Code, Section 457. During 1998, the assets of the plan were held in a trust in a custodial account as described in IRS Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodial account is held by the custodian thereof for the exclusive benefit of the participants and beneficiaries of this Section 457 plan and the assets may not be diverted to any other use. The administrators are: Nationwide Retirement Solutions, and EF Jones Insurance and are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time to the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32 requirements, plan balances and activities are not reflected in the Road Commission's financial statements.

During 2006, the Road Commission ended their agreement with Hartford Life Insurance Company. Employees with funds in the Hartford plan can continue to have their funds with the plan until they individually elect to move their funds out of the plan.

### NOTE F--RESERVE FOR SELF-INSURANCE

The Baraga County Board of Road Commissioners' policy is to self-insure for fleet collision coverage and employee group life coverage. The Collision Insurance Reserve Account was established in 1969 and the Life Insurance Reserve Account in 1982. The reserve accounts are funded by annual transfers of amounts equal to what the approximate premium would be on the respective coverage, plus interest earned on interest-bearing deposits of the reserve account. The Road Commission's policy provides that the transfers of premium amounts will be discontinued when the annual interest earnings on the reserve account are greater than the estimated premium cost. All collision repair costs on road equipment and group life benefit payments are expensed when paid and closed to the respective reserve account at year-end.

|                             | <u>Collision<br/>Insurance<br/>Reserve</u> | <u>Life<br/>Insurance<br/>Reserve</u> | <u>Total<br/>Self-Insurance<br/>Reserve</u> |
|-----------------------------|--|---------------------------------------|---|
| Balance--October 1, 2005    | \$ 152,359                                 | \$ 73,411                             | \$ 225,770                                  |
| Additions                   |  |                                       |   |
| Interest Earned             | <u>2,292</u>                               | <u>1,104</u>                          | <u>3,396</u>                                |
| Balance--September 30, 2006 | <u>\$ 154,651</u>                          | <u>\$ 74,515</u>                      | <u>\$ 229,166</u>                           |

# BARAGA COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE G--LONG-TERM DEBT

The long-term debt of the Road Commission may be summarized as follows:

|  | <u>Balances</u><br><u>10/01/05</u> | <u>Additions</u><br><u>(Reductions)</u> | <u>Balances</u><br><u>09/30/06</u> | <u>Due Within</u><br><u>One Year</u> |
|--|------------------------------------|---|------------------------------------|--------------------------------------|
| <u>Installment Purchase Agreement</u>        |                                    |   |                                    |                                      |
| Payable to Commercial National Bank for      |                                    |   |                                    |                                      |
| One CAT D3 Dozer                             | \$ 5,250                           | \$ (5,250)                              | -                                  |                                      |
| One Case 821 C Loader                        | 12,248                             | (12,248)                                | -                                  |                                      |
| Four CAT 140H Motor Graders                  | 304,705                            | (163,116)                               | \$ 141,589                         | \$ 141,589                           |
| Payable to De Lage Landen Financial Services |                                    |   |                                    |                                      |
| Software System                              | 71,769                             | (24,028)                                | 47,741                             | 25,426                               |
| <u>Loan Contract Payable</u>                 |                                    |   |                                    |                                      |
| State Infrastructure Bank (SIB) Loan         | 275,000                            |   | 275,000                            | 275,000                              |
| <u>Vested Employee Benefits Payable</u>      |                                    |   |                                    |                                      |
| Vacation Benefits                            | 85,251                             | 89                                      | 85,340                             |                                      |
| Sick Leave Benefits                          | 263,740                            | (30,545)                                | 233,195                            |                                      |
| Total  | <u>\$1,017,963</u>                 | <u>\$(235,098)</u>                      | <u>\$ 782,865</u>                  | <u>\$ 442,015</u>                    |

### Installment Purchase Contract

The installment purchase contract was entered into on July 16, 2003 for the purchase of Four CAT 140H Motor Graders for a total cost of \$635,802 from Commercial National Bank. The agreement bears interest at 4.04% per annum with 48 monthly payments of \$14,367.19 and is summarized as follows:

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u>     |
|-------------|------------------|-----------------|------------------|
| 2007        | <u>\$141,589</u> | <u>\$2,625</u>  | <u>\$144,214</u> |
| Total       | <u>\$141,589</u> | <u>\$2,625</u>  | <u>\$144,214</u> |

The installment purchase contract was entered into on May 5, 2005 for the purchase of a new software system for a total cost of \$75,642 from De Lage Landen Financial Services, Inc. The agreement bears interest at 5.82% per annum with 36 monthly payments of \$2,289.84 and is summarized as follows:

# BARAGA COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE G--LONG-TERM DEBT (Continued)

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u>     |
|-------------|------------------|-----------------|------------------|
| 2007        | \$ 25,426        | \$ 2,052        | \$ 27,478        |
| 2008        | <u>22,315</u>    | <u>584</u>      | <u>22,899</u>    |
| Total       | <u>\$ 47,741</u> | <u>\$ 2,636</u> | <u>\$ 50,377</u> |

A loan contract payable (State Infrastructure Bank loan) was entered into on February 13, 2004 for the purchase of financing infrastructure improvements for a total cost of \$275,000 from Michigan Department of Transportation. The agreement bears no interest and the full amount is due February 13, 2007.

| <u>Year</u> | <u>Principal</u>  | <u>Interest</u> | <u>Total</u>      |
|-------------|-------------------|-----------------|-------------------|
| 2007        | \$ 275,000        |                 | \$ 275,000        |
| Total       | <u>\$ 275,000</u> | <u>\$ -</u>     | <u>\$ 275,000</u> |

### Vacation Benefits

The Road Commission's employment policies provide for vacation benefits to be earned in varying amounts depending on the number of years of service of the employee. All vacation time accrued through December 31 of the current year shall be utilized in the following year.

### Sick Leave Benefits

The sick leave benefits liability recorded as long-term debt in the Statement of Net Assets reflects only those vested benefits which would be payable should an employee quit.

The Road Commission's employment policies provide that sick leave is accumulated at the rate of 1 day per month for all regular employees who have worked more than ½ of the normal working hours during the month. There is no limit on the accumulation of sick leave and accumulated benefits shall be paid at the employee's prevailing rate of pay in accordance with the following policy:

1. Retirement or Death--An employee shall receive pay in a lump sum for accumulated sick leave at the following rate: 100% of the first 120 days and 50% of the remainder.
2. Resignation--An employee shall receive pay in a lump sum for accumulated vested sick leave computed as follows:
 

|                  |  |
|------------------|--|
| 0-5 years        | No sick leave benefits                               |
| 5-10 years       | 50% of accumulated benefits                          |
| 10-15 years      | 75 % of the first 120 days, and 50% of the remainder |
| 15 or more years | 100% of the first 120 days, and 50% of the remainder |



# BARAGA COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE H--CAPITAL ASSETS

Following is a summary of the changes in the capital assets at September 30, 2006.

|                                      | Account<br>Balances<br>10/1/05 | Additions   | Deductions | Account<br>Balances<br>09/30/06 |
|--------------------------------------|--------------------------------|-------------|------------|---------------------------------|
| Capital Assets Not Being Depreciated |                                |             |            |                                 |
| Land and Improvements                | \$ 106,277                     |             |            | \$ 106,277                      |
| Infrastructure--Land Improvements    | 3,666,277                      | \$1,386,442 |            | 5,052,719                       |
| Subtotal                             | 3,772,554                      | 1,386,442   | \$ -       | 5,158,996                       |
| Capital Assets Being Depreciated     |                                |             |            |                                 |
| Buildings                            | 495,326                        |             |            | 495,326                         |
| Road Equipment                       | 5,382,777                      | 329,248     | 459,279    | 5,252,746                       |
| Shop Equipment                       | 100,926                        | 3,535       |            | 104,461                         |
| Office Equipment                     | 130,886                        | 336         |            | 131,222                         |
| Engineers' Equipment                 | 103,559                        |             |            | 103,559                         |
| Stockroom Equipment                  | 42,653                         | 2,553       | 3,021      | 42,185                          |
| Depletable Assets                    | 53,083                         |             |            | 53,083                          |
| Infrastructure--Bridges              | 2,807,429                      | 771,675     |            | 3,579,104                       |
| Infrastructure--Roads                | 1,184,878                      | 245,497     |            | 1,430,375                       |
| Total                                | 10,301,517                     | 1,352,844   | 462,300    | 11,192,061                      |
| Less Accumulated Depreciation        |                                |             |            |                                 |
| Buildings                            | 302,975                        | 11,015      |            | 313,990                         |
| Road Equipment                       | 4,645,002                      | 291,610     | 434,417    | 4,502,195                       |
| Shop Equipment                       | 77,457                         | 4,691       |            | 82,148                          |
| Office Equipment                     | 38,027                         | 13,946      |            | 51,973                          |
| Engineers' Equipment                 | 56,901                         | 8,508       |            | 65,409                          |
| Stockroom Equipment                  | 36,132                         | 2,325       | 3,021      | 35,436                          |
| Depletable Assets                    | 52,679                         | 405         |            | 53,084                          |
| Infrastructure--Bridges              | 11,930                         | 74,062      |            | 85,992                          |
| Infrastructure--Roads                | 22,639                         | 60,542      |            | 83,181                          |
| Total                                | 5,243,742                      | 467,104     | 437,438    | 5,273,408                       |
| Net Capital Assets Being Depreciated | 5,057,775                      | 1,352,844   | 491,966    | 5,918,653                       |
| Total Net Capital Assets             | \$ 8,830,329                   | \$2,739,286 | \$ 491,966 | \$11,077,649                    |

## BARAGA COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

#### NOTE H--CAPITAL ASSETS (Continued)

Depreciation expense was charged to programs of the primary government as follows:

|                             |                   |
|-----------------------------|-------------------|
| Net Equipment Expense       |                   |
| Direct Equipment            | \$ 291,611        |
| Indirect Equipment          | 23,443            |
| Net Administrative Expenses |                   |
| Office                      | 6,324             |
| Engineering                 | 9,787             |
| Building                    | 930               |
| Depletable Assets           | 405               |
| Infrastructure Depreciation | <u>134,604</u>    |
| Total Depreciation Expense  | <u>\$ 467,104</u> |

#### NOTE I--RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for medical benefit claims, self-insures for fleet collision and employee group life coverage as detailed in Note F, and participates in the Michigan County Road Commission Self-Insurance Pool for claims relating to general liability, excess liability, auto liability, errors and omissions, physical damage (equipment, buildings and contents) and workers' compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

The county road commissions in the State of Michigan established and created a trust fund, known as the Michigan County Road Commission Self-Insurance Pool (Pool) pursuant to the provisions of Public Act 138 of 1982. The Pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to road commissions and related road commission activities with the state. The Baraga County Road Commission became a member of the pool in 1980 for workers' compensation insurance and in 1984 for liability and property coverage.

The Michigan County Road Commission Self-Insurance Pool program operates as a common risk-sharing management program for road commissions in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts.

## BARAGA COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

#### NOTE J--EMPLOYEES' RETIREMENT SYSTEM

##### Description of Plan and Plan Assets

The Baraga County Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death, duty-connected death, and post-retirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.00% times the final average compensation (FAC). The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2005.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851, as amended (MCL 46.12a) State of Michigan. The MERS actuarial report was made in accordance with generally recognized actuarial methods in compliance with Public Act 220 of 1996, as amended, and the MERS plan document as revised. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

##### Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Road Commission's competitive bargaining unit and personnel policy, which does not require employees to contribute to the plan. The Road Commission is required to contribute at an actuarially determined rate; the rate was 14.69% for the calendar year ending December 31, 2005.

##### Annual Pension Cost

During the calendar year ended December 31, 2005, the Road Commission's contributions totaling \$149,244 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2003. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit.

# BARAGA COUNTY ROAD COMMISSION

## NOTES TO FINANCIAL STATEMENTS

### NOTE J--EMPLOYEES' RETIREMENT SYSTEM (Continued)

#### Three Year Trend Information for GASB Statement No. 27

| <u>Year<br/>Ended<br/>Dec 31</u> | <u>Annual<br/>Pension<br/>Cost (APC)</u> | <u>Percentage<br/>of APC<br/>Contributed</u> | <u>Net<br/>Pension<br/>Obligation</u> |
|----------------------------------|--|--|---------------------------------------|
| 2003                             | \$113,841                                | 100%   | \$0                                   |
| 2004                             | 127,965                                  | 100%   | 0                                     |
| 2005                             | 149,244                                  | 100%   | 0                                     |

#### Required Supplementary Information for GASB Statement No. 27

| <u>Actuarial<br/>Valuation<br/>Date</u> | <u>Actuarial<br/>Value of<br/>Assets</u> | <u>Actuarial<br/>Accrued<br/>Liability<br/>(AAL)</u> | <u>Underfunded<br/>AAL<br/>(UAAL)</u> | <u>Funded<br/>Ratio</u> | <u>Covered<br/>Payroll</u> | <u>UAAL as a<br/>Percent of<br/>Covered<br/>Payroll</u> |
|---|--|--|---------------------------------------|-------------------------|----------------------------|---|
| 12/31/03                                | \$ 4,195,102                             | \$ 5,630,744   | \$ 1,435,642                          | 75%                     | \$1,078,124                | 133%  |
| 12/31/04                                | 4,197,945                                | 5,855,691  | 1,657,746                             | 72%                     | 1,035,844                  | 160%  |
| 12/31/05                                | 4,200,480                                | 6,245,601  | 2,045,121                             | 67%                     | 1,068,489                  | 191%  |

Significant actuarial assumptions used include:

- 1) Long-term investment yield rate of 8%;
- 2) Annual salary increases of 4.5% plus a percentage based on an age-related scale to reflect merit, longevity, and promotional salary increases; and
- 3) Base inflation of 4.5%.

### NOTE K--POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note J, the Baraga County Road Commission provides post-employment health care insurance benefits to certain retired or permanently disabled union and administrative employees and/or their spouse in accordance with the following provisions:

#### Retired Union Employees

The hospital and medical coverage benefits are provided in accordance with Article 33(A.2a) and 33(A.2b) in the union agreement. Article 33(A.2a) states: When an employee elects to retire early and has at least twenty (20) years of continuous service with the Road Commission, the Road Commission agrees to continue to pay the premiums for the lesser of: (1) five years; or (2) until the employee's qualification for Medicare or death. Article 33(A.2b) states: For employees employed as of December 31, 1998 electing to retire early, the Road Commission agrees to continue to pay the premiums from age 62 to 65 or until the employee qualifies for Medicare or death, whichever comes sooner, even if the employee has not completed such twenty (20) years.

## BARAGA COUNTY ROAD COMMISSION

### NOTES TO FINANCIAL STATEMENTS

#### NOTE K--POST-EMPLOYMENT BENEFITS (Continued)

##### Retired Administrative Employees

The benefits are provided in accordance with Section 10(A.2) of the "General Employee Policy pertaining to Non-Bargaining Unit Employees," which includes the provision that when an employee elects to retire early, the Road Commission agrees to pay the medical insurance premium from age 60 to 65 or until the employee qualifies for Medicare, whichever comes sooner.

##### Permanently Disabled Employees

The benefits are provided in accordance with a board of road commissioners' policy adopted on November 13, 1996, which includes the provision that any regular employee having 20 years of service with the Road Commission who becomes permanently disabled, or any regular employee having 5 years of service with the Road Commission who becomes permanently disabled after reaching age 55, shall be eligible for health insurance benefits for a 36 month period. Said period shall commence the month after the month of the last day worked. Eligible employees are those who have been determined to be permanently disabled and are receiving social security disability and MERS retirement benefits. During the three year period under this policy, the Road Commission will pay the premiums for primary coverage until such time that the employee qualifies for Medicare Part B, at which time the Road Commission will pay the premium for secondary coverage.

The Road Commission's policy is to finance this benefit on a pay-as-you-go basis. During the fiscal year ended September 30, 2006, nine retirees and/or disabled employees were eligible for this benefit at a total cost of \$63,480.

#### NOTE L--FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the fiscal year ended September 30, 2006, the Federal aid expended by the Road Commission was \$108,839 for contracted projects and \$1,487,631 for negotiated projects. The Federal aid received by the Road Commission was \$108,839 for contracted projects and \$1,666,535 for negotiated projects. The difference between the revenue and expenditures for negotiated projects is due to FEMA projects in progress at September 30, 2006, which were to be billed after project completions. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted Federal projects are not subject to single audit requirements by the road commissions, as they are included in MDOT's Single Audit. Negotiated projects are defined as projects performed by Road Commission employees or private contractors paid for and administrated by the Road Commission and are subject to a single audit if the expenditures exceeded \$500,000.

A Single Audit was performed during the fiscal year ended September 30, 2006, as there was \$1,487,631 expended in Federal Awards.

**BARAGA COUNTY ROAD COMMISSION**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES**  
**BUDGET AND ACTUAL**  
**For the Year Ended September 30, 2006**

**EXHIBIT G**

|                                   | Original<br>Adopted<br>Budget | Final<br>Amended<br>Budget | Actual       | Variance<br>Favorable<br>(Unfavorable) |
|-----------------------------------|-------------------------------|----------------------------|--------------|--|
| Taxes                             |                               |                            |              |  |
| Property Taxes                    | \$ 285,000                    | \$ 284,000                 | \$ 283,806   | \$ (194)                               |
| Federal Aid (Negotiated Projects) |                               |                            |              |  |
| Bureau of Indian Affairs          | 3,335,000                     | 1,412,000                  | 1,412,488    | 488                                    |
| FEMA                              | 200,000                       | 179,000                    | 178,815      | (185)                                  |
| Emergency Watershed Protection    | 30,000                        | 30,000                     | 30,000       | -                                      |
| Emergency Relief                  | 30,000                        | 45,000                     | 45,232       | 232                                    |
| Safety                            | 200,000                       | -                          | -            | -                                      |
| Federal Aid (Contracted Projects) |                               |                            |              |  |
| Surface Transportation Funds      | 20,000                        | 11,000                     | 11,270       | 270                                    |
| Army Core of Engineers            | 10,000                        | -                          | -            | -                                      |
| Critical Bridge                   | -                             | 98,000                     | 97,569       | (431)                                  |
| State Aid                         |                               |                            |              |  |
| Michigan Transportation Fund      |                               |                            |              |  |
| Engineering                       | 10,000                        | 10,000                     | 10,000       | -                                      |
| Primary Road                      | 1,190,000                     | 1,159,000                  | 1,157,699    | (1,301)                                |
| Local Road                        | 642,000                       | 630,000                    | 627,565      | (2,435)                                |
| Snow Removal                      | 280,000                       | 299,000                    | 299,245      | 245                                    |
| Economic Development Funds        |                               |                            |              |  |
| Forest Funds (E)                  | 40,000                        | 167,000                    | 167,478      | 478                                    |
| FEMA                              | 168,000                       | 29,000                     | 29,197       | 197                                    |
| Critical Bridge                   | 630,000                       | 270,000                    | 270,114      | 114                                    |
| Contributions--Local Units        |                               |                            |              |  |
| Townships                         | 115,000                       | 146,000                    | 146,031      | 31                                     |
| Village                           |                               | 6,000                      | 6,329        | 329                                    |
| Charges for Services              |                               |                            |              |  |
| Sales                             | -                             | 32,000                     | 28,123       | (3,877)                                |
| Salvage Sales                     | 10,000                        | 1,000                      | 6,154        | 5,154                                  |
| Interest and Rents                |                               |                            |              |  |
| Interest Earned                   | 10,000                        | 22,000                     | 22,414       | 414                                    |
| Other Revenue                     |                               |                            |              |  |
| Refunds/Rebates                   |                               |                            | 48           | 48                                     |
| Gain on Equipment Disposals       | 5,000                         | 9,000                      | 10,138       | 1,138                                  |
| Private Contributions             | 10,000                        | 65,000                     | 65,431       | 431                                    |
| Total Operating Revenue           | 7,220,000                     | 4,904,000                  | \$ 4,905,146 | \$ 1,146                               |
| Fund Balance--October 1, 2005     | 906,440                       | 1,432,545                  |              |  |
| Total Budget                      | \$ 8,126,440                  | \$ 6,336,545               |              |  |

**The Notes to Financial Statements are an integral part of this statement**

**BARAGA COUNTY ROAD COMMISSION**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**SCHEDULE OF EXPENDITURES--BUDGET AND ACTUAL**  
**For the Year Ended September 30, 2006**

**EXHIBIT H**

|                                      | Original<br>Adopted<br>Budget | Final<br>Amended<br>Budget | Actual              | Variance<br>Favorable<br>(Unfavorable) |
|--------------------------------------|-------------------------------|----------------------------|---------------------|--|
| Primary Road                         |                               |                            |                     |  |
| Preservation/Structural Improvements | \$ 1,550,000                  | \$ 897,000                 | \$ 835,355          | \$ 61,645                              |
| Routine and Preventive Maintenance   | 840,000                       | 655,000                    | 626,183             | 28,817                                 |
| Local Road                           |                               |                            |                     |  |
| Construction--Capacity Improvements  | -                             | 5,000                      | 540                 | 4,460                                  |
| Preservation/Structural Improvements | 900,000                       | 790,000                    | 716,255             | 73,745                                 |
| Routine and Preventive Maintenance   | 1,370,000                     | 1,420,000                  | 1,375,755           | 44,245                                 |
| Primary Road Structure               |                               |                            |                     |  |
| Preservation/Structural Improvements | 1,000,000                     | 720,000                    | 686,766             | 33,234                                 |
| Routine and Preventive Maintenance   | 5,000                         | 5,000                      | 1,196               | 3,804                                  |
| Local Road Structure                 |                               |                            |                     |  |
| Construction--Capacity Improvements  | -                             | 35,000                     | 17,462              | 17,538                                 |
| Preservation/Structural Improvements | 600,000                       | 200,000                    | 147,235             | 52,765                                 |
| Routine and Preventive Maintenance   | 5,000                         | 15,000                     | 8,356               | 6,644                                  |
| Equipment Expense--Net               | (75,000)                      | 22,000                     |                     |  |
| Direct                               |                               |                            | \$ 557,081          |  |
| Indirect                             |                               |                            | 261,603             |  |
| Operating                            |                               |                            | 222,875             |  |
| Less: Equipment Rentals              |                               |                            | <u>(1,096,271)</u>  | 76,712                                 |
| Administrative Expense--Net          | 385,000                       | 397,000                    |                     |  |
| Administrative Expense               |                               |                            | 387,071             |  |
| Less: Handling Charges               |                               |                            | (13,984)            |  |
| Purchase Discounts                   |                               |                            | <u>(30)</u>         | 23,943                                 |
| Non Road Project                     |                               | 67,000                     | 62,056              | 4,944                                  |
| Capital Outlay--Net                  | 95,000                        | 4,000                      |                     |  |
| Capital Outlay                       |                               |                            | 335,673             |  |
| Less: Depreciation Credits           |                               |                            | (332,502)           |  |
| Equipment Retirements                |                               |                            | <u>(24,862)</u>     | 25,691                                 |
| Debt Service                         |                               |                            |                     |  |
| Principal Payments                   | 210,000                       | 205,000                    | 204,642             | 358                                    |
| Interest Expense                     | 10,000                        | 13,000                     | 12,365              | 635                                    |
| Contingency                          | <u>50,000</u>                 |                            |                     |  |
| Total Expenditures                   | 6,945,000                     | 5,450,000                  | <u>\$ 4,990,820</u> | <u>\$ 459,180</u>                      |
| Fund Balance--September 30, 2006     | <u>1,181,440</u>              | <u>886,545</u>             |                     |  |
| Total Budget                         | <u>\$ 8,126,440</u>           | <u>\$ 6,336,545</u>        |                     |  |

**The Notes to Financial Statements are an integral part of this statement**

**BARAGA COUNTY ROAD COMMISSION**  
**ANALYSIS OF CHANGES IN FUND BALANCES**  
**For the Year Ended September 30, 2006**

**EXHIBIT I**

|  | Primary<br>Road Fund | Local<br>Road Fund | County<br>Road<br>Commission | Total        |
|--|----------------------|--------------------|------------------------------|--------------|
| Total Revenues   | \$ 2,470,533         | \$ 2,042,597       | \$ 392,016                   | \$4,905,146  |
| Total Expenditures   | 2,315,864            | 2,423,794          | 251,162                      | 4,990,820    |
| Excess of Revenues Over<br>(Under) Expenditures  | 154,669              | (381,197)          | 140,854                      | (85,674)     |
| Other Financing Sources (Uses)   |                      |                    |                              |              |
| Optional Transfers   | (301,925)            | 301,925            |                              | -            |
| Interfund Adjustments  |                      | 79,272             | (79,272)                     | -            |
| Total Other Financing Sources (Uses)   | (301,925)            | 381,197            | (79,272)                     | -            |
| Excess of Revenues Over (Under) Expenditures<br>and Other Financing Sources and (Uses) | (147,256)            | -                  | 61,582                       | (85,674)     |
| Fund Balance--October 1, 2005  | 147,256              | -                  | 1,511,059                    | 1,658,315    |
| Fund Balance--September 30, 2006   | \$ -                 | \$ -               | \$ 1,572,641                 | \$ 1,572,641 |



**BARAGA COUNTY ROAD COMMISSION**  
**ANALYSIS OF REVENUES AND**  
**OTHER FINANCING SOURCES**  
**For the Year Ended September 30, 2006**

**EXHIBIT J**

|                                    | Primary<br>Road Fund | Local<br>Road Fund | County<br>Road<br>Commission | Total        |
|------------------------------------|----------------------|--------------------|------------------------------|--------------|
| Taxes                              |                      |                    |                              |              |
| Property Taxes                     |                      |                    | \$ 283,806                   | \$ 283,806   |
| Federal Aid (Negotiated Projects)  |                      |                    |                              |              |
| Bureau of Indian Affairs           | \$ 837,575           | \$ 574,913         |                              | 1,412,488    |
| FEMA                               |                      | 178,815            |                              | 178,815      |
| Emergency Watershed Protection     | -                    | 30,000             |                              | 30,000       |
| Emergency Relief                   | 45,232               |                    |                              | 45,232       |
| Federal Aid (Contracted Projects)  |                      |                    |                              |              |
| Surface Transportation Funds       | 11,270               |                    |                              | 11,270       |
| Bridge                             | -                    | 97,569             |                              | 97,569       |
| State Aid                          |                      |                    |                              |              |
| Michigan Transportation Fund       |                      |                    |                              |              |
| Engineering                        | 6,485                | 3,515              |                              | 10,000       |
| Allocation                         | 1,157,699            | 627,565            |                              | 1,785,264    |
| Snow Removal                       |                      | 299,245            |                              | 299,245      |
| Economic Development Fund          |                      |                    |                              |              |
| Forest Funds (E)                   | 147,000              | 20,478             |                              | 167,478      |
| FEMA                               |                      | 29,197             |                              | 29,197       |
| Critical Bridge                    | 251,820              | 18,294             |                              | 270,114      |
| Contributions--Local Units         |                      |                    |                              |              |
| Townships                          |                      | 146,031            |                              | 146,031      |
| Village                            |                      |                    | \$ 6,329                     | 6,329        |
| Charges for Services               |                      |                    |                              |              |
| Sales                              | 11,148               | 16,975             |                              | 28,123       |
| Salvage Sales                      |                      |                    | 6,154                        | 6,154        |
| Interest and Rents                 |                      |                    |                              |              |
| Interest Earned                    | 2,304                | -                  | 20,110                       | 22,414       |
| Other Revenue                      |                      |                    |                              |              |
| Refunds/Rebates                    |                      |                    | 48                           | 48           |
| Gain on Equipment Disposal         |                      |                    | 10,138                       | 10,138       |
| Contributions From Private Sources |                      |                    | 65,431                       | 65,431       |
| Total Operating Revenue            | \$ 2,470,533         | \$ 2,042,597       | \$ 392,016                   | \$ 4,905,146 |

**BARAGA COUNTY ROAD COMMISSION**  
**ANALYSIS OF EXPENDITURES**  
**For the Year Ended September 30, 2006**

**EXHIBIT K**

|  | Primary<br>Road Fund | Local<br>Road Fund | County<br>Road<br>Commission | Total        |
|--|----------------------|--------------------|------------------------------|--------------|
| Primary Road                                   |                      |                    |                              |              |
| Preservation/Structural Improvements           | \$ 835,355           |                    |                              | \$ 835,355   |
| Routine and Preventive Maintenance             | 626,183              |                    |                              | 626,183      |
| Local Road                                     |                      |                    |                              |              |
| Construction--Capacity Improvements            |                      | \$ 540             |                              | 540          |
| Preservation/Structural Improvements           |                      | 716,255            |                              | 716,255      |
| Routine and Preventive Maintenance             |                      | 1,375,755          |                              | 1,375,755    |
| Primary Road Structures                        |                      |                    |                              |              |
| Preservation/Structural Improvements           | 686,766              |                    |                              | 686,766      |
| Routine and Preventive Maintenance             | 1,196                |                    |                              | 1,196        |
| Local Road Structures                          |                      |                    |                              |              |
| Construction--Capacity Improvements            |                      | 17,462             |                              | 17,462       |
| Preservation/Structural Improvements           |                      | 147,235            |                              | 147,235      |
| Routine and Preventive Maintenance             |                      | 8,356              |                              | 8,356        |
| Equipment Expense--Net<br>(Per Exhibit H)      | (15,259)             | (33,243)           | \$ (6,210)                   | (54,712)     |
| Administrative Expense--Net<br>(Per Exhibit H) | 181,623              | 191,434            |                              | 373,057      |
| Non Road Project                               |                      |                    | 62,056                       | 62,056       |
| Capital Outlay--Net<br>(Per Exhibit H)         |                      |                    | (21,691)                     | (21,691)     |
| Debt Service                                   |                      |                    |                              |              |
| Principal Payments                             |                      |                    | 204,642                      | 204,642      |
| Interest Payments                              |                      |                    | 12,365                       | 12,365       |
| Total Expenditures                             | \$ 2,315,864         | \$ 2,423,794       | \$ 251,162                   | \$ 4,990,820 |

**BARAGA COUNTY ROAD COMMISSION**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (3)**  
**For the Year Ended September 30, 2006**

**SCHEDULE 1**

| <u>Federal Grantor/Pass-Through Grantor/Program Title</u>             | <u>Federal<br/>CFDA<br/>Number</u> | <u>Pass-Through<br/>Grantor's Number</u> | <u>Federal<br/>Expenditures</u> |
|---|------------------------------------|--|---------------------------------|
| Negotiated Projects (1)   |                                    |  |                                 |
| US Department of Transportation                                       |                                    |  |                                 |
| Highway Research, Planning and Construction                           |                                    |  |                                 |
| Direct--US Department of Interior                                     |                                    |  |                                 |
| Bureau of Indian Affairs  | 20.205                             | AGF50050008                              | \$ 172,625                      |
| Bureau of Indian Affairs  | 20.205                             | AGF50050009                              | 133,433                         |
| Bureau of Indian Affairs  | 20.205                             | AGF50030012                              | 575,399                         |
| Bureau of Indian Affairs  | 20.205                             | AGF50030025                              | 57,042                          |
| Bureau of Indian Affairs  | 20.205                             | AGF50040013                              | 211,800                         |
| Bureau of Indian Affairs  | 20.205                             | AGF50030024                              | 262,101                         |
| Subtotal--Bureau of Indian Affairs                                    |                                    |  | <u>1,412,400</u>                |
| Passed Through Michigan Department<br>of Transportation               |                                    |  |                                 |
| Emergency Relief Program  | 20.205                             | JJ1913 78929                             | 22,502                          |
| Emergency Relief Program  | 20.205                             | RR4066 78927                             | 6,187                           |
| Emergency Relief Program  | 20.205                             | RR4357 78933                             | 16,542                          |
| Subtotal--Emergency Relief Program                                    |                                    |  | <u>45,231</u>                   |
| Total US Department of Transportation                                 |                                    |  | <u>1,457,631</u>                |
| US Department of Agriculture  |                                    |  |                                 |
| Direct--Natural Resources Conservation Service                        |                                    |  |                                 |
| Emergency Watershed Protection Program                                | 10.904                             | 69-5D21-5-5                              | <u>30,000</u>                   |
| <b>Total Negotiated Projects Subject to Single Audit Requirements</b> |                                    |  | <b><u>\$ 1,487,631</u></b>      |
| Contracted Projects (2)   |                                    |  |                                 |
| US Department of Transportation                                       |                                    |  |                                 |
| Passed Through Michigan Department<br>of Transportation               |                                    |  |                                 |
| Highway Research, Planning and Construction                           |                                    |  |                                 |
| Critical Bridge   | 20.205                             | RR 5110 83836A                           | \$ 97,569                       |
| Surface Transportation Program  | 20.205                             | RR 4498 54637A                           | 2,295                           |
| Surface Transportation Program  | 20.205                             | RR 4357 78933A                           | 8,453                           |
| Surface Transportation Program  | 20.205                             | RR 4390 80545A                           |                                 |
| Total US Department of Transportation                                 |                                    |  | <u>108,317</u>                  |
| Total Contracted Projects   |                                    |  | <u>\$ 108,317</u>               |
| Total Federal Aid Projects  |                                    |  | <u>\$ 1,595,948</u>             |

**The notes to this schedule are an integral part of this statement.**

BARAGA COUNTY ROAD COMMISSION  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended September 30, 2006

1. Negotiated projects are projects that the Road Commission's work force performs or administers the work in accordance with a contract negotiated with the following agencies: Bureau of Indian Affairs, USDA-Natural Resources Conservation Service and Michigan Department of Transportation.
2. Contracted projects are administered by the Michigan Department of Transportation (MDOT) and will be included in its Single Audit.
3. This schedule is presented on the modified accrual basis of accounting; please refer to Note B of the financial statement notes for other significant accounting policies.

**Baraga County Road Commission  
Schedule of Findings and Questioned Costs  
For the Year Ended September 30, 2005**

**Section I--Summary of Auditor's Results**

*Financial Statements*

Type of auditor's report issues: Unqualified

Internal control over financial reporting:

• Material weakness(es) identified? \_\_\_\_\_ Yes X No

• Significant deficiency(ies) identified that are not considered to be material weaknesses? X Yes \_\_\_\_\_ No

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes X No

*Federal Awards*

Internal control over major programs:

• Material weakness(es) identified? \_\_\_\_\_ Yes X No

• Significant deficiency(ies) identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes X None reported

Type of auditor's report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? \_\_\_\_\_ Yes X No

Identification of major programs:

| <i>CFDA Number(s)</i> | <i>Name of Federal Program or Cluster</i>   |
|-----------------------|---|
| 20.205                | Highway Research, Planning and Construction |

Dollar threshold used to distinguish between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee? X Yes \_\_\_\_\_ No

**Baraga County Road Commission  
Schedule of Findings and Questioned Costs  
For the Year Ended September 30, 2005**

**Section II--Financial Statement Findings**

**SIGNIFICANT DEFICIENCY**

**Receipts Processing**

*Finding 2006-01*

*Condition:*

1. One person is involved in writing receipts, preparing revenue voucher, posting receipts and reconciling the receipts with the transmittal advice and county treasurer's receipt.
2. The receipts (invoices) did not include the method of payment, the payee or the account classification. A receipt register listing all receipts written in numerical sequence is not maintained.

*Criteria:* The Michigan Department of Treasury's Accounting Procedures Manual for Local Units of Government requires the following:

All receipts of a local unit must include the local unit name, department (when applicable) and must be printer pre-numbered, and made for each collection including checks and money orders received from individuals, the state, the county, other local units, and checks between funds, etc. Each receipt must clearly indicate the name of the payer, the amount paid, the purpose of payment, the fund name and number, account number, and the signature of the local unit official receiving the money. Receipts should also indicate check or money order number or indicate "cash."

After receipting for each payment received, an entry should be made into a receipts journal.

*Receipts should contain the following:*

- Numerically controlled (printer prenumbered) three part official receipts with the name of the local unit printed on the receipt must be issued for all revenues.
- "Cash" or "check" as the method of payment must be indicated on the receipt.
- The receipt must identify the individual receiving payment.
- The receipt must allow for immediate revenue account classification in conformance with the Uniform Chart of Accounts.

*Receipt Processing:*

- When possible, someone other than the person who writes receipts or posts the accounting records must be responsible to verify that collections received in the mail are properly receipted.
- When possible, collections must be reconciled by an individual not involved in the receipt process.

**Baraga County Road Commission  
Schedule of Findings and Questioned Costs  
For the Year Ended September 30, 2005**

*Recommendation:* We recommend that the Road Commission prepare a receipts register at least monthly, this receipt register should contain the receipt number, date, payee, amount (and account classification if applicable). The receipts should contain the information included above.

An individual independent of the receipting process should compare the receipts written with the deposit advice and the bank deposit slips, at least on a random basis and initial the respective deposit advice/deposit tickets when performing this test.

- Contact Person(s) Responsible for Correction  
Mary Bedner, Clerk/Office Manager
- Corrective Action Planned

We now maintain a monthly receipt register listing Receipt (Document) Number, Customer Name, Check Number, Document Date and Transaction Amount.

All the information requested by the auditors was obtainable by drilling down on the item utilizing our new accounting software.

- Anticipated Completion Date

Effective March 2007, we started running a monthly Receipt Register.

**Section III--Federal Award Findings and Questioned Costs**

No matters were reported.



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

ROBERT J. KLEINE  
STATE TREASURER

February 15, 2007

Baraga County Road Commission  
Board of County Road Commissioners  
US 41 South  
P.O. Box 217  
L'Anse, Michigan 49946

RE: Report on Internal Control Over Financial Reporting and on Compliance and Other  
Matters Based on an Audit of the Financial Statements Performed in Accordance  
With Government Auditing Standards

Dear Commissioners:

We have audited the financial statements of the Baraga County Road Commission, a component unit of Baraga County, as of and for the year ended September 30, 2006, and have issued our report thereon dated February 15, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Baraga County Road Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Baraga County Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Baraga County Road Commission's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting



principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described as finding 2006-01 in the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency in internal control over financial reporting

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Baraga County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of Baraga County Road Commission in a separate letter dated February 15, 2007.

This report is intended solely for the information and use of the Baraga County Board of Road Commissioners, management and others within the Road Commission, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
LANSING

ROBERT J. KLEINE  
STATE TREASURER

February 15, 2007

Baraga County Road Commission  
Board of County Road Commissioners  
US 41 South  
P.O. Box 217  
L'Anse, Michigan 49946

RE: Report on Compliance With Requirements Applicable to Each Major Program and on  
Internal Control Over Compliance in Accordance With OMB Circular A-133

Dear Board Members:

Compliance--We have audited the compliance of Baraga County Road Commission (component unit of Baraga County, Michigan) with the types of compliance requirements described in the US Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that is applicable to its major Federal programs for the year ended September 30, 2006. Baraga County Road Commission's major Federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each its major Federal program is the responsibility of Baraga County Road Commission's management. Our responsibility is to express an opinion on Baraga County Road Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program. An audit includes examining, on a test basis, evidence about Baraga County Road Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Baraga County Road Commission's compliance with those requirements.

In our opinion, Baraga County Road Commission complied, in all material respects, with the requirements referred to above that are applicable to its major Federal program for the year ended September 30, 2006.

Internal Control Over Compliance--The management of Baraga County Road Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered Baraga County Road Commission's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Baraga County Road Commission's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Road Commission's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the Road Commission's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the Road Commission's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information of the Baraga County Road Commission's Board of Trustees, the Road Commission's management, others within the Road Commission, and Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM  
Audit Manager  
Local Audit and Finance Division